Overview of Issues Related to Video Lottery Terminals

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Gaming/Gambling

- These are generally interchangeable terms.
- The State sanctions specific gaming activities such as wagering on horse racing and the State Lottery.

Horse Racing

 Horse racing was first regulated by Maryland in 1743.

Pari-mutuel betting was introduced in 1912.

 The State Racing Commission was created in 1920.

State Lottery

 The Maryland State Lottery was established in 1972 through legislative action and a constitutional amendment that was approved by voters.

 Estimated fiscal 2003 lottery sales of \$1.37 billion are expected, with \$430 million going to the general fund.

Slot Machines – History

 Slot machines were authorized throughout the State from 1937-1939.

 Legislation was enacted to allow slot machines in Southern Maryland in the 1940s – these were entirely prohibited in 1968.

Slot Machines – History (cont.)

 Slot machines were authorized in Eastern Shore counties (except Worcester County) in 1987.

- Certain nonprofit organizations are permitted to operate no more than five machines.
- 50% of the proceeds must go to charity.

Other Forms of Gaming

 Tip jars are popular in Western Maryland and typically benefit nonprofit organizations – these may also be found in businesses such as restaurants and bars.

 Bingo, carnivals, bazaars, raffles, and casinotype games are allowed for nonprofit organizations on a county-by-county basis – several counties permit for-profit bingo.

Other Forms of Gaming (cont.)

- Sports betting is illegal.
- Internet gaming is not addressed by current State statutes.

Recent Gaming Proposals

- Several gaming proposals have been introduced in the General Assembly in recent years; these generally focused on the expansion of video lottery terminals to racetracks and other locations.
- Under these proposals, revenues would go to State and local governments, licensees, racing purses, and other miscellaneous purposes.
- A constitutional amendment providing for an expansion of video lottery terminals (to be ratified by voters) was also suggested.

Video Lottery Terminals – Definition

 A video lottery terminal (VLT) is a video-based version of the traditional slot machine.

Video Lottery Terminals – Considerations

- Number and location of video lottery sites
- Number of machines per location
- Average daily win per machine
- Average prize payout to winners
- Ownership and administration of the machines
- Where the net proceeds go
- Impact on other gaming activities and social costs

Video Lottery Terminals Delaware

- There are three Delaware racetrack locations with VLTs – Delaware Park, Dover Downs, and Harrington Raceway.
- Legislation was approved in 1994, and machines began operating in December 1995.
- Delaware Park and Dover Downs currently each have 2,000 machines, and Harrington has approximately 1,300 machines.
- Prize payouts range from 87% to 95%.

Video Lottery Terminals Delaware (cont.)

- Oversight is provided through the State Lottery.
- Gross proceeds were approximately \$565 million in fiscal 2002. Approximately 60% of these revenues were distributed to racetracks and purses, 35% to the state's general fund, and the remaining 5% to cover administrative costs.

Video Lottery Terminals West Virginia

- West Virginia has four racetrack locations with VLTs Mountaineer Park (Chester), Charles Town Races, Wheeling Downs, and Tri-State Racetrack/Gaming Center (Cross Lanes).
- Machines began operating in September 1994 after a limited trial period at Mountaineer Park.
- Mountaineer Park currently has just under 3,000 VLTs, Charles Town has just under 2,700, and both Wheeling and Tri-State each have about 1,600.
- Prize payouts range from 85% to 92%.

Video Lottery Terminals West Virginia (cont.)

- Oversight is provided through the State Lottery.
- About 60% of gross revenues is distributed to racetracks/purses, and 30% to the state lottery fund. The remaining 10% is distributed to tourism initiatives, local governments, the state racing commission, the state pension fund, greyhound and thoroughbred development, and administrative costs.
- Approximately \$595 million in gross revenues was generated in fiscal 2002.

Gaming Activities in Other States*

	Casino Gaming	Slots, Video Gaming, and/or VLTs
Colorado	Yes	
Delaware		Yes ¹
Illinois	Yes	
Indiana	Yes	
Iowa	Yes	Yes
Louisiana	Yes	Yes
Michigan	Yes	
Mississippi	Yes	
Missouri	Yes	
Nevada	Yes	
New Jersey	Yes	
New Mexico		Yes
Oregon		Yes
Rhode Island		Yes ¹
South Dakota	Yes	Yes
West Virginia		Yes
*Not including Indian reservations 1. Only at racetracks		
Source: NCSL		

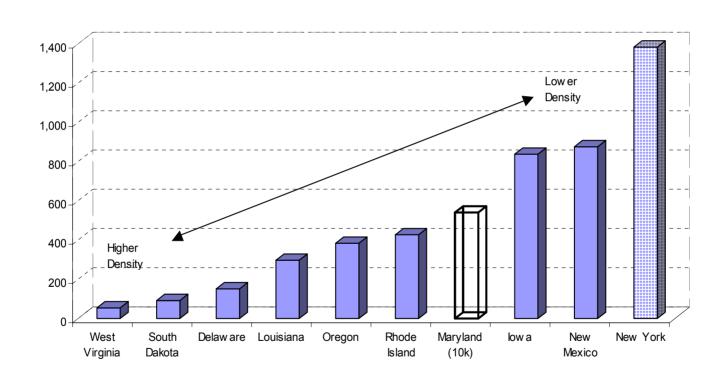
Non-Casino Machine Gaming in Other States

<u>State</u>	Types of Gaming/Regulatory Agency	Number of Machines	Population per Machine	Prize <u>Payouts</u>	State <u>Allocation</u>	Fiscal 2002 Revenues*
Delaware	VLTs at Racetracks Lottery Agency	5,300	150	87-95%	35%	\$565
lowa	Slot machines at Racetracks Racing/Gaming Commission	3,500	835	80-100%	5-20%	\$310
Louisiana	VLTs and Video Poker at Restaurants, etc. Gaming Control Board	15,200	294	80-99%	18.5-32.5%	\$590
New Mexico	Slot Machines at Racetracks/Nonprofits Gaming Control Board	2,100	871	82%-96%	10-25%	\$120
New York**	VLTs at Racetracks Lottery Agency	13,800	1,378	N/A	60%	N/A
Oregon	VLTs in Pari-mutuel Facilities, Bars, etc. Lottery Agency	9,100	382	88-97%	60-85%	\$480
Rhode Island	VLTs at Racetracks Lottery Agency	2,500	424	92-99.1%	52%-57.5%	\$280
South Dakota	VLTs at Liquor-licensed Establishments Lottery Agency	8,200	92	80-95%	50%	\$210
West Virginia	VLTs at Racetracks/Video Lottery at Bars, etc. Lottery Agency	13,700	55	85-92%	30-50%	\$595
Maryland		10,000	538			

^{* \$} in Millions (Number for Iowa reflects fiscal 2001)

^{**} Yet to be implemented

Persons Per Gambling Machine – Non-casino States



Video Lottery Terminals – Revenues

- It has been estimated that up to \$800 million in annual revenues could be generated, after prize payouts and before any revenue distributions.
- This estimate assumes a total of 10,000 VLTs (four locations each with 2,500 terminals), with approximately 90% of gross proceeds paid out in prizes and an average daily win of \$217 per machine. It also assumes a 10% reduction in State lottery revenues.

Video Lottery Terminals – Revenue Scenarios

	\$250	\$275	\$300
	Average	Average	Average
	Daily Win	Daily Win	Daily Win
10,000			
Terminals	\$870 Million	\$960 Million	\$1.05 Billion
14,000			
Terminals	\$1.23 Billion	\$1.36 Billion	\$1.39 Billion
18,000			
Terminals	\$1.60 Billion	\$1.76 Billion	\$1.80 Billion

Video Lottery Terminals – Revenue Scenarios (cont.)

- The previous scenarios make the following assumptions:
 - terminals would operate 365 days per year;
 - a 10% decline in lottery revenues; and
 - no deductions for administrative expenses.

Video Lottery Terminals – Revenue Scenarios (cont.)

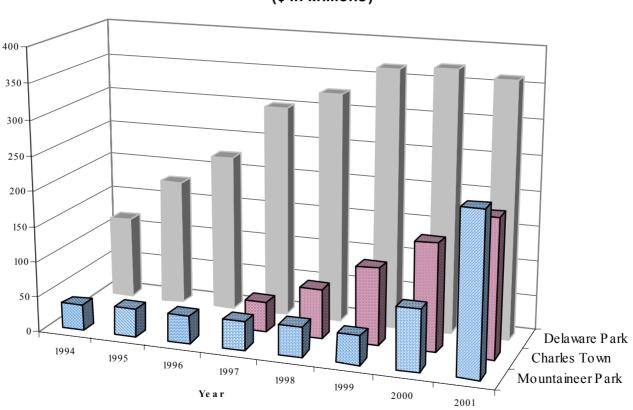
• For illustrative purposes, the Delaware VLT locations had an average daily win of \$278 in 2001, and the West Virginia locations averaged \$217 for the same year.

Video Lottery Terminals – Fiscal 2004/2005 Revenues

- The proposed fiscal 2004 budget assumes that \$395 million in revenues from video lottery terminals (VLTs) will be received \$350 million from the sale of license fees and \$45 million from the actual operation of terminals.
- This assumes that \$100 million would be paid for VLT licenses at Laurel Park, Pimlico Race Course, and Rosecroft Raceway, and \$50 million for the proposed racetrack in Allegany County.
- The budget submission assumes \$600 million in fiscal 2005 revenues.

Impact of VLTs on Racing

Changes In Racing Handle after VLTs Introduced (\$ in Millions)



Social Impacts of Gaming

- Concerns have been raised regarding the social impacts of gaming – these include gambling by minors, pathological gambling, and increased crime rates.
- While various studies lack consensus on the incidence of pathological and/or problem gambling, the 1999 report of the National Gambling Impact Study Commission estimated that approximately 7.5 million adults could be considered pathological or problem gamblers.

Social Impacts of Gaming (cont.)

- Other studies examined by the commission estimated that anywhere from 2% to 7% of adult gamblers suffer from pathological or problem gambling.
- Delaware spends \$1 to 1.5 million annually, and West Virginia spends \$300,000 to \$500,000 annually on addressing issues related to problem gambling.
- Expenditures generally focus on gambling treatment helplines and prevention/education programs.

Balancing Revenues with Other Public Interests

- In 1999, both the U. S. National Gambling Impact Study Commission and the Australia Productivity Commission recognized the potential economic benefits of gambling, but also urged governments to adopt policies to limit social costs.
- Consumer Protections:
 - Regulatory framework that assures the fairness of games and absence of organized crime influence
 - Licensing of officers, employees, and suppliers
 - Adequate regulatory oversight
 - Socially responsible advertising and promotion policies
 - Disclosure requirements concerning
 - Payout and odds of achieving big pay combinations
 - Nature of games, including relationship of future outcomes to past results
 - Provide consumers with records of spending to the extent technology allows

Addressing Problem Gambling

- Should be seen as a public health issue
 - Requires public education about risks and enhanced treatment resources
 - Requires careful consideration of the number of machines and the number, location, and design of gambling facilities
- Codes of conduct for gambling facilities should include reasonable measures to mitigate risk
 - Age restrictions for participation
 - Self-exclusion policies for individuals (family initiation?)
 - Limit the dollar amount of bills machines will accept
 - Pay out winnings over a certain amount by check
 - Limit number, location, and maximum withdrawals of ATMs
 - Train staff to recognize problems and require them to intervene (operator immunity? Dram shop-type liability?)

Observations on Gambling and Government

- In addition to policing functions, a broader and far more important role for government regulation is determining the scope and manifestation of gambling's presence in society and thus its impact on the general public.
- Governments have considerable control over the benefits and costs legalized gambling can bring with it by specifying the number, location, and size of gambling facilities; the types of games that can be offered; and the conditions under which licensed facilities may operate.
- What has generally been missing in the area of gambling regulation is a well thought out scheme of how gambling can best be utilized to advance larger public purposes and a corresponding role for regulation. Instead, much of what exists is far more the product of incremental and disconnected decisions, often taken in reaction to pressing issues of the day, than one based on sober assessments of long-term needs, goals, and risks.
- One of the more damning criticisms of government decision making in this area is the assertion that governments too often have been focused more on a shortsighted pursuit of revenues than on the long-term impact of their decisions on the public welfare.